The Churchill Corporation Annual Report 1996

Churchill

"Churchill's mission is to maximize client value in the construction process by partnering with owners to profitably deliver project-related services appropriate to fulfilling each owner's needs."

Strategic Direction

Churchill is well into its long term strategic plan to become a diversified construction operation. The core construction businesses operate in three fields; general commercial construction, general industrial construction and specialty industrial construction. The disposition of the non-core assets continues to be accelerated as the focus on the construction industry becomes sharper and more well defined.

Subsidiaries

Stuart Olson Construction Ltd.	100%
Insulation Holdings Inc.	100%
Triton Projects Limited Partnership	80%

Corporate Profile

The Churchill Corporation is a public company, listed on the Alberta Stock Exchange (CUQ). The Corporation has 249 registered shareholders of 17,731,920 Class A common shares and 2 registered holders of 6,752,146 preferred shares. Both common and preferred shares have voting status.

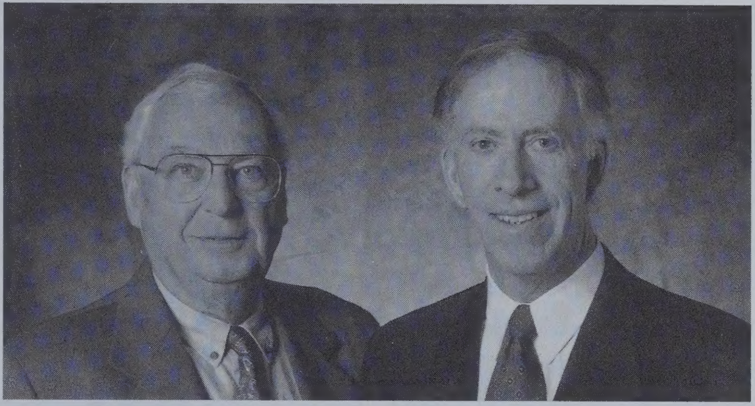
The Corporation's head office is in Edmonton and subsidiaries have offices located in Edmonton, Calgary, Vancouver, Regina, and Fort McMurray. The Corporation has a nine member Board of Directors, an Executive Committee, Audit Committee and Human Resources Committee.

Affiliates

Lafrentz Road Services Ltd.	41%
Russell Technologies Inc.	47%

Report to Shareholders

A significant return to profitability was achieved by The Churchill Corporation in 1996, marked by a 19-cent recovery in earnings per common share (basic and fully diluted) to $0.08 at year-end from a loss of $0.11 in 1995. Despite lower than anticipated results during the first nine months of the year, a strong fourth quarter performance contributed to the Corporation's rewarding financial results for the year.



S. K. Hooper, Chairman H.R. (Hank) Reid, President and C.E.O.

Over-all financial performance of The Churchill Corporation is represented by revenues of $125 million at year-end. Profitability of the construction subsidiaries as a group increased 28%, more than $1 million in surplus assets were sold at a profit, and a $2.7 million long-term note payable was retired in exchange for the Corporation's oil and gas investment.

Consequently, Churchill posted record net earnings for the year of $1.4 million compared to a loss of $1.7 million last year. We are entering 1997 with a stronger balance sheet and with the cash resources and working capital to enable the Corporation to take advantage of an emerging industry turnaround.

While revenues of $125 million are $6 million lower than 1995, the Corporation supervised a further $20 million in project management work in 1996 which is not included in these figures. Improved percentage margins and lower interest costs further contributed to an over-all improvement in profit. Churchill's operational performance in the fourth quarter of 1996 was particularly strong. At $38.6 million, revenues in the October to December period were 8% higher than the $35.7 million recorded in the previous quarter and 42% higher than the fourth quarter of 1995.

"Profitability of the construction subsidiaries... increased 28%..."

Gross profits of $10.6 million in 1996 are 18% greater than the $9.0 million recorded in 1995 and reflect the inroads that Churchill companies have achieved in relatively stable, but nevertheless competitive, construction markets. The positive impact of this favorable $1.6 million year-over-year improvement was diluted somewhat by increased provisions for doubtful accounts, and by legal costs for construction claims which are expected to generate future profits when settled.

Earnings from construction operations closed the 1996 fiscal year at $635,000 compared to $152,000 for year-end 1995. Even greater activity levels and corresponding results from construction operations are anticipated in 1997 in view of approximately $100 million of backlog in place at December 31, 1996.

Non-construction operations contributed $792,000 to net earnings compared to a loss of $2.8 million last year. This improvement is largely the result of exchanging the Corporation's oil and gas asset in settlement of a $2.7 million note payable offset by an increase in valuation allowances taken on agreements receivable.

Interest expense incurred in 1996 for Churchill's combined operations totalled $609,000, a 44% reduction from 1995. This decrease is the result of reduced interest rates in combination

with lower debt levels. This is the sixth consecutive year of reduced interest expense and debt levels.

The net result of Churchill's successful operations in 1996 is a significantly improved balance sheet. Shareholders' equity has increased 21% to finish the year at \$8.2 million. The Corporation's total interest-bearing debt at December 31, 1996 is \$7.3 million, 57% lower than year-end 1995. Long-term debt of \$2.6 million is 62% less than the December, 1995 level. At the same time cash resources are higher and Churchill's working capital fundamentals remain sound.

Subsidiary Operations

The Churchill Corporation's core business activities are represented by its construction group which posted its sixth straight year of profits in 1996.

Stuart Olson Construction completed 1996 with improved operating profits and a very robust fourth quarter performance. This subsidiary has already contracted over 60% of its anticipated 1997 revenues. Stuart Olson's success has developed through a value-added approach to serving clients by offering project management, design build, and value engineering in addition to traditional building activities. Stuart Olson's early involvement in projects and its value-added approach to construction provide a higher level of service and lower over-all costs to clients. It is a strategy that has resulted in more repeat business opportunities for the company and which we believe will continue to differentiate Stuart Olson from its competitors.

"...\$100 million of backlog in place at December 31, 1996."

Stuart Olson carried out a variety of construction projects during the year from its branches in Edmonton, Calgary and Vancouver. Notable contracts in Alberta include three schools and a fine arts facility in Calgary, a professional development centre in Banff, and the renovation of the Peter Lougheed Hospital in Calgary. In British Columbia, the company has been actively involved in building a number of commercial and high-rise residential projects and three hotels.

During 1996, management changes were implemented to better position Stuart Olson for future growth and to strengthen operational management and close inter-group management links. To that end, H.R. Reid and T.B. Dunnigan assumed parallel operational roles at Stuart Olson in addition to their duties as officers of Churchill. To further strengthen operational management, Mr. G. Bardell has been promoted to Executive Vice President and Chief Operating Officer of Stuart Olson.

Insulation Holdings, Churchill's specialty contractor in the industrial insulation and asbestos removal market, has benefited from the restructuring process it undertook in 1995. The company was profitable in 1996 and achieved revenues 22% higher than the previous year. Through its subsidiaries, Insulation Holdings has been active in the expanding industrial markets in Alberta, Saskatchewan and British Columbia.

Triton Projects had a disappointing year due to severe competition in a relatively slow mechanical contracting market in Alberta and B.C. Although traditional gross margins were maintained, revenue volumes were not sufficient to provide a satisfactory level of profits. Increased emphasis on business development along with improved industrial construction markets late in 1996 have resulted in recent procurement successes which should return this subsidiary to acceptable profit levels in 1997.

We are pleased to report that all three construction subsidiaries had exemplary safety records in 1996. Two subsidiaries achieved zero lost-time injuries in the year and all improved their workers' compensation assessment ratings. This accomplishment reflects Churchill's determination that safety is, and will continue to be, a critically important standard by which all operations do business.

Affiliates and Non-Strategic Assets

Churchill's investment in Russell Technologies Inc. increased in value during the year as a result of an investment in the affiliate's waterline inspection technology unit by a prominent U.S. water and sewer contractor. The investment provides an injection of capital along with a strategic alliance with a licensee able to exploit a large segment of the lucrative U.S. waterline restoration market.

Churchill's ongoing program to divest non-strategic assets progressed during the year with the profitable sale of the Corporation's interests in four non-core assets: Shippers' Supply Inc., a land holding in Surrey, B.C., and two small real estate holdings in Alberta. More than $1 million in proceeds from these sales was utilized to reduce bank debt.

Future Prospects

As we look forward, The Churchill Corporation is well positioned to take advantage of a very positive economic climate in western Canada. Recent announcements of significant construction and industrial projects, particularly in northern Alberta, will return the western Canadian construction industry to building levels not experienced since the early 1980's. The prospects for Churchill's construction group to participate in these developments are very positive. Our construction subsidiaries have successfully completed the restructuring necessary to compete in both difficult and strong market climates; they have a demonstrated capacity to make profits.

The expertise Stuart Olson has developed in value-added construction will further contribute to its ability to increase penetration in a stable building construction market. Insulation Holdings and Triton Projects have strength in field operations and management to enable their full participation in the rapidly expanding industrial construction sector in western Canada. The Corporation's real estate portfolio will be largely divested within 12 months, resolution for long-standing Churchill construction contracting claims is pending and prospects are good for the sale of our interest in the two remaining non-core affiliates.

"...all three construction subsidiaries had exemplary safety records in 1996."

The Board of Directors has accepted with regret the decision of Mr. D. E. Johnson to retire as a director of Churchill after 6 years of service. We would like to thank Mr. Johnson for his loyalty, dedication and tireless contribution to the Corporation.

The Churchill Corporation enters 1997 with confidence and enthusiasm. Strong business and operating fundamentals applied over the last several years have resulted in a positive financial performance being achieved in a recovering economic climate. The Board of Directors and Management would like to recognize once again that the progress evident in 1996, which bodes so well for Churchill's future, is largely the result of dedicated, loyal staff. We would like to express our thanks and appreciation for the fine efforts by all employees in the Churchill Group during 1996.

H.R. (Hank) Reid
President and C.E.O.

Stanton K. Hooper
Chairman

Management's Discussion and Analysis

This discussion and analysis of the financial condition and operating results of the Corporation should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report.

The Corporation's subsidiaries, Stuart Olson Construction Ltd., Insulation Holdings Inc. and Triton Projects Group provide construction services in the general contracting, insulation contracting and industrial contracting market sectors in western Canada.

The presentation of our Consolidated Statements of Earnings has been changed to specifically identify the results of our construction operations. Prior year results have been restated to maintain comparability.

Results of Construction Operations

Revenue of $125 million is $6 million below 1995 and the margin as a percentage of direct costs is 9.2% compared to 7.3% last year. In 1996, $20 million of additional work was performed on a construction management basis where only the fee for service is included in revenue. If this work had been performed on a normal contract basis our 1996 volume would have shown a $14 million increase over 1995 and the margin would have been 7.8%.

While indirect and administrative expenses have increased $1 million year over year, $600,000 of this is attributable to an increase in allowance for doubtful accounts.

Interest expense for construction operations in 1996 is $152,000 less than 1995. This reduction is the combined effect of improved cash-flow from construction projects and a 28% reduction in the average prime rate year over year.

Results of Non-Construction Operations

The breakdown of non-construction operations is shown in Note 12 of the audited financial statements.

"Interest-bearing debt...is 57% lower than year-end 1995."

The ongoing program of divesting non-core assets resulted in the disposal of properties for sale with a book value of $569,000, and our minority position in Shippers Supply Inc. Proceeds from these disposals have been applied to reduce interest bearing debt and the aggregate gain of $469,000, included in non-construction operations, is $90,000 less than similar gains in 1995. All non-core asset disposals in 1996 have been accomplished at or above carrying values, indicating once again a conservative approach to balance sheet valuation.

During the year the Corporation settled a long-term note payable through an asset exchange of our oil and gas investment resulting in a gain on settlement of $1,674,000.

Liquidity

The main sources of liquidity for the Corporation and its subsidiaries are cash-flow generated from operations supplemented by bank credit facilities. Because of improving cash-flow, the Corporation was able to reduce its dependence on bank credit facilities.

At December 31, 1996, the Corporation and its subsidiaries had aggregate credit facilities consisting of $14.0 million (1995: $18.5 million) in operating lines and $2.6 million (1995 : $3.7 million) in term loans. The group was in compliance with the terms of its credit facilities throughout the year and, at December 31, 1996, had aggregate unused lines of credit of $9.3 million (1995 : $8.5 million).

Working capital at December 31, 1996 is $4.7 million (1995 : $5.7 million) and the working capital ratio shows a slight deterioration over the year. The working capital reduction is due to utilizing proceeds from disposal of properties for sale to reduce long-term bank debt and classifying $500,000 of the long-term debt as current to reflect an unscheduled payment made in January, 1997. This unscheduled payment was made to disencumber the oil and gas investment thereby enabling settlement of the long-term note payable.

Over the past several years efforts have been concentrated on divesting all non-construction assets. The industry segments represented by the remaining non-core assets are insignificant in both asset value and their effect on normal earnings. Accordingly, the presentation of segmented information is no longer applicable.

Management's Report

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgement. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has discussed the financial statements, including the notes thereto, with management and external auditors.

H.R. (Hank) Reid
President and Chief Executive Officer

T.B. Dunnigan

Terrance B. Dunnigan, C.A.
Vice President Finance

Auditors' Report

To the Shareholders of The Churchill Corporation

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 1996 and 1995 and the consolidated statements of earnings, deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Edmonton, Alberta
March 7, 1997

Consolidated Balance Sheets

December 31, 1996

	($ thousands)	1996	1995
ASSETS	Current Assets		
	Cash and Term Deposits (Note 2)	**$ 8,276**	$ 6,136
	Accounts Receivable	**30,983**	24,173
	Inventories and Prepaid Expenses	**1,342**	1,823
	Properties for Sale (Note 3)	**2,810**	3,386
	Current Portion of Agreements Receivable (Note 4)	**377**	140
		43,788	35,658
	Agreements Receivable and Other (Note 4)	**533**	1,139
	Corporate Investments (Note 5)	**2,049**	3,330
	Property and Equipment (Note 6)	**2,920**	3,056
		$ 49,290	$ 43,183
LIABILITIES	Current Liabilities		
	Bank Indebtedness (Note 7)	**$ 4,711**	$ 10,020
	Accounts Payable	**25,816**	13,105
	Contract Advances and Unearned Income	**7,377**	5,803
	Current Portion of Long-Term Debt (Note 8)	**1,217**	1,058
		39,121	29,986
	Long-Term Debt (Note 8)	**1,365**	5,781
	Deferred Income Taxes (Note 9)	**72**	72
	Minority Interest	**527**	566
		41,085	36,405
SHAREHOLDERS' EQUITY	Shareholders' Equity (Note 10)	**8,205**	6,778
		$ 49,290	$ 43,183

Approved by the Board:

Director

Director

Consolidated Statements of Earnings

Year Ended December 31, 1996

	($ thousands, except per share amounts)	1996	1995
CONSTRUCTION OPERATIONS	Revenue	**$ 125,429**	$ 131,677
	Direct Costs	**114,850**	122,725
		10,579	8,952
	Other Income (Note 11)	**157**	486
	Indirect and Administrative Expenses	**(9,695)**	(8,635)
	Depreciation Expense	**(384)**	(423)
	Interest Expense	**(20)**	(172)
	Minority Interest	**(2)**	(56)
	Earnings from Construction Operations	**635**	152
NON-CONSTRUCTION OPERATIONS	Income (Expense) (Note 12)	**933**	(2,547)
	Depreciation and Depletion Expense	**(141)**	(223)
	Earnings Before Income Tax Recovery	**1,427**	(2,618)
	Income Tax Recovery (Note 9)	**—**	892
	Net Earnings (Loss)	**$ 1,427**	$ (1,726)
	Net Earnings (Loss) Per Common Share Basic and Fully Diluted	**$ .08**	$ (0.11)

Basic and fully diluted earnings (loss) per common share are calculated after deducting annual preferred dividends in arrears of nil (1995: $280). The weighted average number of common shares outstanding during the year was 17,731,920 (1995: 17,731,920).

Consolidated Statements of Deficit

Year Ended December 31, 1996

($ thousands)	1996	1995
Deficit, Beginning of Year	**$ (3,051)**	$ (24,944)
Reduction of Stated Capital (Note 10)	**—**	15,387
Reduction of Contributed Surplus (Note 10)	**—**	8,232
Net Earnings (Loss)	**1,427**	(1,726)
Deficit, End of Year	**$ (1,624)**	$ (3,051)

Consolidated Statements of Changes in Financial Position

Year Ended December 31, 1996

	($ thousands)	1996	1995
OPERATING ACTIVITIES	Net earnings (loss)	$ 1,427	$ (1,726)
	Add (deduct) non-cash items		
	Net equity loss (earnings) of affiliates	11	(93)
	Depreciation, depletion and goodwill amortization	552	666
	Gain on sale of assets	(468)	(787)
	Allowance for agreements receivable and other	502	2000
	Writedown of goodwill	—	414
	Gain on settlement of debt	(1,674)	—
	Change in deferred income taxes	—	(797)
		350	(323)
	Change in minority interest	(39)	(496)
	Net change in accounts receivable, inventories and prepaid expenses	(6,329)	5,249
	Net change in accounts payable, contract advances and unearned income	14,285	(9,463)
		8,267	(5,033)
INVESTING ACTIVITIES	Change in agreements receivable	(133)	(228)
	Proceeds from corporate investments	1,640	89
	Proceeds on sale of assets	617	3,159
	Additions to assets	(359)	(495)
		1,765	2,525
FINANCING ACTIVITIES	Decrease in bank indebtedness	(5,309)	(2,900)
	Long-term debt repayment	(2,583)	(1,821)
		(7,892)	(4,721)
	Increase (Decrease) in Cash	2,140	(7,229)
	Cash and Term Deposits, Beginning of Year	6,136	13,365
	Cash and Term Deposits, End of Year	$ 8,276	$ 6,136

Notes to the Consolidated Financial Statements

December 31, 1996

1. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the following subsidiaries and limited partnership:

Stuart Olson Construction Corporation (100%)

Stuart Olson Construction Ltd. (100%)

Insulation Holdings Inc. (100%)

Triton Construction Inc. (80%)

Triton Projects Limited Partnership (80%)

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value.

Property sales are recorded when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Developed properties are depreciated on a 5% sinking fund basis over 40 years.

Corporate Investments

Corporate investments include equity interests in operating companies. These interests, where the Corporation has significant influence, are accounted for on the equity basis.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 6.

Contract Income

Revenue from construction contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating either the actual cost of work or the actual hours performed to date to the current estimated total cost or estimated total hours for each contract. Any projected loss is recognized immediately.

Goodwill

Goodwill is calculated as the excess purchase price paid on the acquisition of subsidiary and affiliated companies over the value assigned to identifiable net assets acquired and is amortized on a straight-line basis over periods not exceeding 20 years.

2. Cash and Term Deposits

($ thousands)

Cash and term deposits include $4,789 (1995: $4,184) the use of which is restricted to the payment of direct costs related to specific construction projects.

3. Properties for Sale
($ thousands)

		1996 Net Book Value		1995 Net Book Value
Developed properties	$	3,924	$	3,931
Undeveloped land		2,197		2,799
		6,121		6,730
Less cumulative valuation adjustments		3,311		3,344
	$	2,810	$	3,386

Developed properties are net of accumulated depreciation of $417 (1995: $348).

4. Agreements Receivable and Other
($ thousands)

		1996		1995
Agreement receivable	$	4,688	$	4,688
Term deposit		500		500
Mortgages and notes receivable				
Non-interest bearing		10		10
Interest at Prime + 1% to Prime + 1.5%		502		184
Interest at 6%		144		157
Interest at 9.25%		266		438
Allowance for doubtful accounts		(5,200)		(4,698)
		910		1,279
Less current portion		377		140
	$	533	$	1,139

The agreement receivable is repayable from future cash flow of the debtor with the first payment expected in 2007. The advances bear interest at Prime + 2%, however, due to the uncertainty of collecting the interest, the Corporation has not recognized this income for 1995 and 1996. The $500 term deposit is pledged as security for other obligations of the same debtor.

Fair value of agreements receivable and other approximates the carrying amounts.

5. Corporate Investments
($ thousands)

		1996		1995
Equity investments				
Preferred shares – up to 9% dividend rates	$	648	$	648
Net equity		1,401		1,998
		2,049		2,646
Oil and gas interests, net of accumulated depletion (1995: $655)		—		684
	$	2,049	$	3,330

Unamortized goodwill included in equity investments is $279 (1995: $341). Preferred shares have cumulative dividend rights and are redeemable from profits of the investees. Preferred dividends in arrears, which have not been reflected in income, are $314 (1995: $268).

6. Property and Equipment
($ thousands)

	1996			1995	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	$ 578	$ —	$ 578	$ 578	
Buildings and improvements	1,995	922	1,073	1,131	4% - 25%
Equipment and furnishings	6,166	4,897	1,269	1,347	6% - 33⅓%
	$ 8,739	$ 5,819	$ 2,920	$ 3,056	

7. Bank Indebtedness

Bank indebtedness is payable on demand, bears interest at varying rates from Prime + 0.75% to Prime + 1.50% and is secured by floating charge debentures, general assignments of book debts and pledging of specific assets.

8. Long-Term Debt
($ thousands)

	1996	1995
Demand bank loans (Prime + 1.25% to Prime + 1.75%)	$ 2,582	$ 3,732
Promissory note	—	2,650
Unsecured loan	—	457
	2,582	6,839
Less current portion	1,217	1,058
	$ 1,365	$ 5,781

Demand bank loans, with repayments to May, 2001, are secured by floating charge debentures, assignments of book debts, and pledging of specific assets.

The promissory note was settled through an asset exchange whereby the Corporation transferred its oil and gas interests, with a market value of $976 to the note holder. As a result, the Corporation recorded a gain on settlement of debt in the amount of $1,674. To effect this transaction it was necessary to reduce a demand bank loan by $500 and this payment was made early in 1997.

Fair value of long-term debt approximates the carrying value.

Interest cost on long-term debt during the year was $264 (1995: $501).

Estimated principal payments in each of the next five years, including the unscheduled $500 payment in 1997, are as follows:

1997	$ 1,217
1998	400
1999	400
2000	400
2001	165

9. Income Taxes

($ thousands)

The consolidated group's effective tax rate approximates 45%. However, due to the utilization of previously unrecognized tax losses carried forward and losses in subsidiaries used to reduce deferred income taxes payable, the provision for income taxes does not reflect the effective rate.

Deferred income taxes result primarily from a subsidiary's deduction for income tax purposes of accounts and holdbacks receivable not due until the following year.

The consolidated group has accumulated non-capital losses for income tax purposes of $9,500 which may be carried forward and used to reduce taxable income in future years. If not utilized, these losses will expire as follows:

1999	$ 1,700
2000	1,900
2001	500
2002	2,600
2003	2,800

These financial statements have recognized $4,500 of the above tax losses carried forward through the reduction of deferred income tax liability.

The consolidated group also has accumulated net-capital losses for income tax purposes of $5,300 which may be carried forward indefinitely to reduce taxable capital gains in future years.

The income tax recovery of $892 in 1995 consists of a current recovery of $95 and a deferred recovery of $797.

10. Shareholders' Equity

($ thousands, except per share amounts)

	1996	1995
Share capital	$ 9,829	$ 9,829
Deficit	(1,624)	(3,051)
	$ 8,205	$ 6,778

Share capital

Authorized

10,000,000	First preferred shares issuable in series with rights set by the directors
10,000,000	Second preferred shares issuable in series with rights set by the directors
110,000,000	Class A common shares

Issued

	1996		
	Shares	Share Capital	Total
Series A first preferred	4,829,069	$ 4,829	$ 4,829
Series A second preferred	1,923,077	5,000	5,000
Total preferred		9,829	9,829
Class A common	17,731,920	—	—
		$ 9,829	$ 9,829

	1995			
	Shares	Share Capital	Contributed Surplus	Total
Series A first preferred	4,829,069	$ 4,829	$ —	$ 4,829
Series A second preferred	1,923,077	5,000	—	5,000
Total preferred		9,829	—	9,829
Class A common				
Issued, beginning of year	17,731,920	15,387	8,232	23,619
Credited to deficit	—	(15,387)	(8,232)	(23,619)
Issued, end of year	17,731,920	—	—	—
		$ 9,829	$ —	$ 9,829

10. Shareholders' Equity
(continued)

Options and Conversion Rights

Rights to acquire 1,923,077 (1995: 1,923,077) Class A common shares at $2.60 (1995: $2.60) are outstanding and exercisable to December 31, 1997.

The Corporation has granted its senior employees and directors options to purchase up to 500,000 (1995: 500,000) Class A common shares at $0.10 which expire July 15, 1999 and up to 330,000 (1995: 330,000) Class A common shares at $0.10 which expire May 17, 2000.

Reduction of Stated Capital

At a Special Meeting of the shareholders it was resolved that the sum of $15,387 be subtracted from the stated capital account of the Class A common shares of the Corporation reducing the amount of such stated capital account to a nominal amount of $1.00. This reduction was applied in 1995 to reduce the deficit of the Corporation.

Reduction of Contributed Surplus

The Board of Directors resolved that the contributed surplus of the Corporation in the amount of $8,232 be applied in 1995 to reduce the deficit of the Corporation.

Preferred Shares

The Series A 8% cumulative first preferred shares are redeemable at $1.00 per share and the Series A 8% second preferred shares are redeemable at $2.60 per share. The preferred shareholders have agreed to waive the right to future dividends for the first and second preferred shares accruing after September 20, 1995 and June 30, 1994 respectively. In addition, it has been agreed that payment of cumulative dividends in arrears and subsequent redemptions of preferred shares will be based on annual earnings. Under the agreement, no dividends in arrears are due as at December 31, 1996.

The cumulative dividends on first preferred shares remain unpaid for the period July 1, 1990 to September 20, 1995 and on second preferred shares for the period July 1, 1990 to June 30, 1994 and total $3,618 (1995: $3,618). The Articles of the Corporation provide that, in the event dividends on preferred shares remain unpaid for any reason for two calendar years, such preferred shares become voting shares on the basis of one vote per share and such shares continue to have voting rights attached until all dividends have been paid. All the preferred shares are held by two shareholders and are now voting shares.

11. Other Income - Construction
($ thousands)

	1996	1995
Interest income	$ **60**	$ 138
Gain on sale of equipment	**23**	228
Sundry	**74**	120
	$ **157**	$ 486

12. Income (Expense) - Non-Construction
($ thousands)

	1996	1995
Property rentals – net	$ **103**	$ 155
Interest income	**96**	109
Interest expense	**(589)**	(913)
Equity (loss) earnings of affiliates	**(11)**	93
Amortization of affiliates' goodwill	**(27)**	(30)
Management fees from affiliates	**50**	101
Oil and gas income – before depletion	**171**	228
Foreign exchange gain (loss)	**30**	(85)
Gain on disposal of investments and real estate	**468**	559
Indirect and administrative expenses	**(530)**	(350)
Allowance for agreements receivable and other	**(502)**	(2,000)
Writeoff of goodwill	**—**	(414)
Gain on settlement of debt (Note 8)	**1,674**	—
	$ **933**	$ (2,547)

13. Contingencies

(a) Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts and for obligations of an associate in an unincorporated joint venture.

(b) The Corporation and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in the statement of earnings as the matters are resolved.

14. Commitments
($ thousands)

The Corporation and its subsidiaries lease certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

1997	$ 705
1998	559
1999	528
2000	433
2001	259

15. Segmented Information

The operations of the Corporation and its subsidiaries are primarily construction. As there are no other significant industry segments, segmented information is not provided.

16. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Corporate Directory

Board of Directors

Peter F. Adams

Robert G. Brawn

Stanton K. Hooper

Donald E. Johnson*

Bud W. Kushnir

William R. McKenzie

Henry R. Reid

Winston D. Stothert

Brian W. L. Tod, Q.C.

* Not standing for re-election

Officers

S. K. Hooper
Chairman

H. R. Reid
President and
Chief Executive Officer

L. A. Patrick
Vice President and
Corporate Counsel and
Corporate Secretary

T. B. Dunnigan, C.A.
Vice President Finance

Annual General Meeting

The Annual General Meeting of Shareholders will be held at
9:00 a.m., May 21, 1997
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta

Auditors

Deloitte & Touche

Legal Counsel

Cook Duke Cox

Ogilvie & Company

Bankers

Alberta Treasury Branches

Bank of Nova Scotia

Surety

Axa Pacific Insurance Co.

Transfer Agent

The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
CALGARY, Alberta
T2P 2Z1

Exchange Listing

Alberta Stock Exchange
Trading Symbol: "CUQ"

Executive Offices

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April 10, 1997

Churchill

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